PALMETTO RAILWAYS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

July 30, 2020

Mr. Robert M. Hitt, III, Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways, for the fiscal year ended December 31, 2019, was issued by Greene Finney, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

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PALMETTO RAILWAYS
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2019

Greene Finney, LLP
Certified Public Accountants & Advisors

INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the "Division") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not present fairly the financial position of the State of South Carolina or the South Carolina Department of Commerce as of December 31, 2019, the changes in their financial position, or, where applicable, their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and OPEB schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2020 on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
July 30, 2020

Our discussion and analysis of South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the "Division") financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2019. Please read these comments in conjunction with the financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The *Statement of Net Position*; the *Statement of Revenues, Expenses and Changes in Fund Net Position*; and *Statement of Cash Flows* provide information regarding the activities of the Division's four operating subdivisions, a fund holding contributed land and land improvements, and as a whole.

The four operating subdivisions of the Division are:

Charleston Subdivision (CHS)
North Charleston Subdivision (NCS)
Charity Church Subdivision (CCS)
Salkehatchie Subdivision (SALKS)

All the subdivisions and the fund holding contributed land and land improvements (the "Economic Development Project Fund") are enterprise fund activities, and all are reported on the accrual basis. CHS and NCS are combined in the financial statements.

These statements provide information on the Division's net position, operations, and cash flows for the year ended December 31, 2019. This discussion and analysis is intended to serve as an introduction to the financial statements. The notes to the financial statements also contain details on some of the information presented in the financial statements.

REPORTING ON THE DIVISION AS A WHOLE

The subdivisions are enterprise funds for accounting and reporting purposes. Enterprise funds are used when governmental entities charge customers for services. Enterprise funds very closely resemble the financial statements of business entities. These statements offer short and long-term financial information about the Division's activities. The Statement of Net Position presents information on all of the Division's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents assets and deferred outflows of resources less liabilities and deferred inflows of resources.

Over time, increases and decreases in net position, specifically unrestricted net position, may serve as a useful indicator of whether the financial position of the Division is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how the Division's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

FINANCIAL HIGHLIGHTS

- Operating revenues increased in 2019 by $1,896,429 or 9.2% due primarily to increases of $1,514,555 and $666,754 in switching fees and storage revenue, respectively, partially offset by a decrease of $420,247 in car repair.

- Grant revenue increased $4,286,602 due to draws being made for the first time on grants in 2019.

- Earnings on investments increased in 2019 by $154,995 or 149.6% due to an increase in state investment income.

FINANCIAL HIGHLIGHTS (CONTINUED)

- Gain on the sale of fixed assets decreased $966,580 or 32.7% due to the sale of two buildings and approximately 26 acres of undeveloped land on the former Navy Base in 2018 compared to a house and an office building in 2019.

- Other rental income increased $326,236 or 28.4% due to a full year of rental income from a building acquired in the property swaps with the City of North Charleston in June 2018.

- Maintenance of way expenses increased $582,499 or 29.5%. The increase is primarily due to stabilization of track at CCS along with vegetation clearing at SALKS.

- Maintenance of equipment expenses increased $246,841 or 13.1% due to increases in salaries and related benefits resulting from personnel changes and mandated benefit increases as well as increased locomotive repairs.

- Car repair expenses decreased by $123,600 or 4.8% primarily due to less repair activity in the last quarter of 2019 as railcars were not being lifted due to procedural reviews.

- Transportation expenses increased $365,977 or 5.7% due primarily to increases in salaries and related benefits resulting from personnel changes and mandated benefit increases.

- General expenses increased $404,593 or 11.4% due primarily to increases in salaries and related benefits resulting from personnel changes and mandated benefit increases, increases in insurance premiums, and a $100,000 reserve related to a potential Federal Employers Liability Act claim.

- Interest expense increased $22,201 or 28.6% primarily due to increased gross revenue from the SALKS, which is included in the calculation of the principal and interest payment.

- Industrial development costs increased $248,327 or 43.1% primarily due to increased professional services related to the NBIF and Camp Hall projects.

- Current assets increased $5,122,164 or 29.9% due to an increase in cash from operations and an increase in accounts receivable related to grant reimbursements outstanding at year end.

- Capital assets increased by $9,748,318 or 3.5% due to further developments of both the Navy Base Intermodal Facility and Camp Hall.

- Deferred OPEB charges increased $1,031,436 or 315.4% primarily due to changes in actuarial assumptions and the Division's proportionate share of the net OPEB liability.

- Deferred pension charges decreased $290,951 or 16.3% due to amortization of the outstanding deferred pension charges from the prior year.

- Current liabilities increased $1,549,216 or 2.9% primarily due to an increase in accounts payable of $1,551,283 or 223.2% due to accrued payables related to the Navy Base Intermodal Facility ("NBIF") and Camp Hall projects.

- The net OPEB liability increased $1,069,636 or 12.5% due to changes in actuarial assumptions and the Division's increase in the proportionate share of the net OPEB liability related to the state OPEB plan.

- The net pension liability increased $915,105 or 8.6% due to the Division's increase in the proportionate share of the net pension liability related to the state pension plans.

FINANCIAL HIGHLIGHTS (CONTINUED)

- Deferred OPEB credits increased $208,529 or 29.7% primarily due to differences in actual versus expected results from actuarial assumptions.

- Deferred pension credits increased $18,952 or 15.9% due to differences in the actual results compared to the actuarially projected results for the net pension liability and changes in the Division's proportionate share of the net pension liability.

- Net position increased $12,009,529 or 5.6% from the prior year net position. Net investment in capital assets increased $9,938,318 or 4.5% and the deficit in unrestricted net position decreased $2,071,211 or 65.2% from the prior year unrestricted net position.

FINANCIAL ANALYSIS

The following are the condensed financial statements of the Division for fiscal years 2019 and 2018, including information concerning the events and circumstances regarding the balances and changes:

Condensed Statement of Net Position

	2019	2018	Amount Change	% Change
Current assets	$ 22,261,166	17,139,002	$ 5,122,164	29.9%
Capital assets, net of depreciation	291,947,358	282,199,040	9,748,318	3.5%
Total Assets	314,208,524	299,338,042	14,870,482	5.0%
Deferred OPEB charges	1,358,511	327,075	1,031,436	315.4%
Deferred pension charges	1,488,739	1,779,690	(290,951)	-16.3%
Total Deferred Outflows of Resources	2,847,250	2,106,765	740,485	35.1%
Total Assets & Deferred Outflows of Resources	$ 317,055,774	301,444,807	$ 15,610,967	5.2%
Current liabilities	$ 55,146,826	53,597,610	$ 1,549,216	2.9%
Net OPEB liability	9,606,705	8,537,069	1,069,636	12.5%
Net pension liability	11,573,409	10,658,304	915,105	8.6%
Other liabilities	11,525,000	11,685,000	(160,000)	-1.4%
Total Liabilities	87,851,940	84,477,983	3,373,957	4.0%
Deferred OPEB credits	909,697	701,168	208,529	29.7%
Deferred pension credits	138,271	119,319	18,952	15.9%
Total Deferred Inflows of Resources	1,047,968	820,487	227,481	27.7%
Net Position:				
Net investment in capital assets	229,262,358	219,324,040	9,938,318	4.5%
Unrestricted	(1,106,492)	(3,177,703)	2,071,211	-65.2%
Total Net Position	228,155,866	216,146,337	12,009,529	5.6%
Total Liabilities, Deferred Inflows of Resources, & Net Position	$ 317,055,774	301,444,807	$ 15,610,967	5.2%

FINANCIAL ANALYSIS (CONTINUED)

Changes in assets, liabilities, and net position are discussed in the Financial Highlights section above.

Condensed Statement of Revenues, Expenses and Changes in Fund Net Position

	2019	2018	Amount Change	% Change
Revenues:				
Operating revenues	$ 22,512,053	20,615,624	$ 1,896,429	9.2%
Earnings on investments	258,570	103,575	154,995	149.6%
Gain on sale of fixed assets	1,987,618	2,954,198	(966,580)	-32.7%
Grant revenue	4,286,602	-	4,286,602	100.0%
Other non-operating revenues	1,738,878	1,366,316	372,562	27.3%
Total Revenues	30,783,721	25,039,713	5,744,008	22.9%
Expenses:				
Maintenance of way	2,558,745	1,976,246	582,499	29.5%
Maintenance of equipment	2,132,035	1,885,194	246,841	13.1%
Car repair	2,431,781	2,555,381	(123,600)	-4.8%
Transportation	6,765,766	6,399,789	365,977	5.7%
General	3,961,410	3,556,817	404,593	11.4%
Total Railroad	17,849,737	16,373,427	1,476,310	9.0%
Other non-operating expenses	924,455	653,927	270,528	41.4%
Total Expenses	18,774,192	17,027,354	1,746,838	10.3%
Change in Net Position	12,009,529	8,012,359	3,997,170	49.9%
Net Position, Beginning of Year	216,146,337	216,911,707	(765,370)	-0.4%
Cumulative Change in Accounting Principle	-	(8,777,729)	8,777,729	-100.0%
Net Position, Beginning of Year - Restated	216,146,337	208,133,978	8,012,359	3.8%
Net Position, End of Year	$ 228,155,866	216,146,337	$ 12,009,529	5.6%

Changes in revenues and expenses are discussed in the Financial Highlights section above.

Detailed Information on the Funds

The Economic Development Project Fund is used to account for land and land improvement contributions received from the South Carolina Department of Commerce which purchased the land and funded the land improvements using proceeds from the State of South Carolina's General Obligation Bond Fund. There were no contributions received for the years ended December 31, 2019 and 2018, respectively.

CHS and NCS had a combined increase in net position of $9,981,557 or 11.9% primarily due to net income of $8,981,557 and transfers in of $1,000,000 received from CCS. Net investment in capital assets increased $10,222,781 or 11.8% and the deficit in unrestricted net position increased $241,224 or 8.1%. These changes in net position are primarily due to the acquisition and construction of capital assets and the result of operations. Major changes in assets include an increase in net capital assets of $10,032,781 or 7.0% related primarily to the continued construction of the Navy Base Intermodal Facility and the Camp Hall projects and an increase of $2,170,196 or 76.7% in accounts receivable due to operations and grant reimbursements receivable. Major changes in liabilities include an increase of $1,551,283 or 223.2% in accounts payable primarily due to construction project payables. Revenues and expense variances were as previously discussed.

FINANCIAL ANALYSIS (CONTINUED)

Detailed Information on the Funds (Continued)

CCS had an increase in net position of $2,007,806 or 16.3% primarily due to income before transfers of $3,007,806 and transfers out of $1,000,000 made to CHS and NCS. Net investment in capital assets decreased $287,723 or 2.4% while unrestricted net position increased by $2,295,529 or 1,131.9%. Major changes in assets and liabilities include a $2,962,121 or 39.7% increase in cash and cash equivalents and a $138,911 or 30.7% decrease in accounts payable to CHS and NCS. Revenues and expenses variances were as previously discussed.

SALKS had an increase in net position of $20,166 or 9.5% due to net income of $20,166. Net investment in capital assets increased by $3,260 or 0.5% while the deficit in unrestricted net position decreased by $16,906 or 4.2%. Major changes in assets include decreases of $89,804 or 79.9% and $10,000 or 100.0% in cash and cash equivalents and accounts receivable, respectively, partially offset by an increase of $3,260 in property, plant and equipment. Major changes in liabilities include a decrease of $138,911 or 30.7% in accounts payable to other divisions partially offset by an increase of $22,201 or 28.6% in interest payable.

FINANCING ACTIVITIES

As the Navy Base Intermodal Facility capital project continues, the loan from the South Carolina Department of Commerce – SC Coordinating Council for Economic Development had an outstanding balance at December 31, 2019 of $51,000,000.

As part of the settlement agreement with the City of North Charleston, the Division assumed responsibility for payment of $6,360,000 in Tax Increment Financing ("TIF") Bonds. Principal and interest are payable in annual installments beginning September 2013 through September 2037 with variable interest (1.9% at June 30, 2019), as determined by the remarketing agent, payable each month. The balance outstanding at December 31, 2019 was $5,185,000.

The Division used a loan from the Colleton County Intermodal Corporation to purchase the Hampton & Branchville railroad, currently the Salkehatchie subdivision, in May 2017 in the amount of $6,500,000. The loan matures in May 2047 but may be extended in four increments of five years each if certain conditions are met.

More detailed information about the Division's financing activities is presented in the Notes to the Financial Statements.

CAPITAL ASSET ACTIVITIES

Capital assets consist of land, land improvements, buildings, machinery and equipment, depreciable roads, non-depreciable roads, leasehold improvements, and projects under construction. The Division had $291,947,358 invested in capital assets, net of accumulated depreciation, as of December 31, 2019, compared to $282,199,040 as of December 31, 2018. The table below provides a summary.

CAPITAL ASSET ACTIVITIES (CONTINUED)

	2019	2018
Land	$ 69,296,105	$ 69,281,842
Land improvements	80,553,102	80,553,102
Buildings	17,051,084	17,967,946
Machinery and equipment	8,470,135	7,997,072
Depreciable road	1,484,251	1,192,360
Non-depreciable road	20,361,850	19,714,338
Leasehold improvements	516,559	700,665
Projects under construction	104,488,219	94,110,675
Total Capital Assets	302,221,305	291,518,000
Less: Accumulated Depreciation	(10,273,947)	(9,318,960)
Capital Assets, Net	$ 291,947,358	$ 282,199,040

Major additions in 2019 include a tie replacer, one new vehicle, an AEI reader, minor building improvements, and further developments of both the Navy Base Intermodal Facility and Camp Hall.

More detailed information about the Division's capital asset activities is presented in the Notes to the Financial Statements.

ECONCOMIC FACTORS AND NEXT YEAR'S OPERATIONS

- Freight traffic is expected to remain fairly stable in 2020.
- Switching and storage revenue is expected to decrease primarily due to changes in customer operations.
- Salaries and benefits are expected to increase due to full staffing and budgeted merit increases.
- Capital expenditures will continue to be incurred as the construction begins on the Navy Base Intermodal Facility and design & property acquisition continues on the Camp Hall project.
- Properties located on the Navy Base will continue to be sent to state surplus to be sold.
- COVID-19 began impacting the United States in February 2020 and continues to impact supply chains through the issuance of these financial statements. The Division has seen a minimal decrease in switching revenues as a result of the virus; however, no significant impacts are expected at this time. We continue to monitor the progression of the virus and evaluate its impacts on our operations.

BASIC FINANCIAL STATEMENTS

PALMETTO RAILWAYS
STATEMENT OF NET POSITION - ENTERPRISE FUNDS
DECEMBER 31, 2019

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	SALKS	INTERDIVISION ELIMINATIONS	TOTAL
ASSETS						
Current Assets:						
Cash and cash equivalents	$ -	5,058,581	10,429,548	22,603	-	$ 15,510,732
Restricted cash - security deposits	-	21,167	-	-	-	21,167
Accounts receivable	-	5,001,292	498,196	-	-	5,499,488
Accounts receivable from other divisions	-	914,653	-	-	(914,653)	-
Interest receivable	-	66	7,483	-	-	7,549
Inventories	-	668,035	37,840	-	-	705,875
Prepayments	-	516,355	-	-	-	516,355
Total Current Assets	-	12,180,149	10,973,067	22,603	(914,653)	22,261,166
Property, Plant and Equipment:						
Land and non-depreciable assets	120,000,000	137,443,394	10,158,405	6,986,899	-	274,588,698
Other depreciable assets, net of accumulated depreciation	-	15,582,632	1,639,409	136,619	-	17,358,660
Total Property, Plant and Equipment	120,000,000	153,026,026	11,797,814	7,123,518	-	291,947,358
TOTAL ASSETS	**120,000,000**	**165,206,175**	**22,770,881**	**7,146,121**	**(914,653)**	**314,208,524**
DEFERRED OUTFLOWS OF RESOURCES						
Deferred OPEB charges	-	815,107	543,404	-	-	1,358,511
Deferred pension charges	-	893,243	595,496	-	-	1,488,739
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**-**	**1,708,350**	**1,138,900**	**-**	**-**	**2,847,250**
LIABILITIES						
Current Liabilities:						
Accounts payable to other divisions	-	-	601,516	313,137	(914,653)	-
Accounts payable - other	-	2,246,304	-	-	-	2,246,304
Retainage payable	-	31,924	-	-	-	31,924
Security deposits	-	21,167	-	-	-	21,167
Deposit in escrow	-	300,000	-	-	-	300,000
Interest payable	-	-	-	99,699	-	99,699
Accrued payroll	-	808,979	-	-	-	808,979
Payroll taxes withheld and accrued employee benefits	-	143,196	-	-	-	143,196
Accrued annual leave and benefits, current portion	-	160,334	106,889	-	-	267,223
Notes payable - short-term	-	51,000,000	-	-	-	51,000,000
TIF bonds payable - short-term	-	195,000	-	-	-	195,000
Unearned revenue	-	33,334	-	-	-	33,334
Total Current Liabilities	-	54,940,238	708,405	412,836	(914,653)	55,146,826
Non-current Liabilities:						
Accrued annual leave and benefits, non-current portion	-	21,000	14,000	-	-	35,000
TIF bonds payable	-	4,990,000	-	-	-	4,990,000
Loan payable	-	-	-	6,500,000	-	6,500,000
Net OPEB liability	-	5,764,023	3,842,682	-	-	9,606,705
Net pension liability	-	6,944,045	4,629,364	-	-	11,573,409
Total Non-current Liabilities	-	17,719,068	8,486,046	6,500,000	-	32,705,114
TOTAL LIABILITIES	**-**	**72,659,306**	**9,194,451**	**6,912,836**	**(914,653)**	**87,851,940**
DEFERRED INFLOWS OF RESOURCES						
Deferred OPEB credits	-	545,818	363,879	-	-	909,697
Deferred pension credits	-	82,963	55,308	-	-	138,271
TOTAL DEFERRED INFLOWS OF RESOURCES	**-**	**628,781**	**419,187**	**-**	**-**	**1,047,968**
NET POSITION						
Net investment in capital assets	120,000,000	96,841,026	11,797,814	623,518	-	229,262,358
Unrestricted	-	(3,214,588)	2,498,329	(390,233)	-	(1,106,492)
TOTAL NET POSITION	**$ 120,000,000**	**93,626,438**	**14,296,143**	**233,285**	**-**	**$ 228,155,866**

The accompanying notes to the financial statements are an integral part of this statement. See accompanying independent auditor's report.

PALMETTO RAILWAYS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - ENTERPRISE FUNDS
DECEMBER 31, 2019

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	SALKS	TOTAL
Operating Revenues:					
Switching fees	$ -	8,393,189	291,884	139,750	$ 8,824,823
Freight charge	-	715,265	7,180,916	-	7,896,181
Rental revenue	-	430,439	-	21,983	452,422
Contractual services	-	62,927	64,159	-	127,086
Storage revenue	-	1,989,610	-	408,476	2,398,086
Dispatching service	-	-	60,968	-	60,968
Car repair	-	2,706,635	-	-	2,706,635
Other revenue	-	45,352	500	-	45,852
Total Operating Revenues	-	14,343,417	7,598,427	570,209	22,512,053
Operating Expenses:					
Maintenance of Way:					
Depreciation	-	170,271	49,852	11,003	231,126
Other maintenance of way expenses	-	843,107	940,297	544,215	2,327,619
Total Maintenance of Way	-	1,013,378	990,149	555,218	2,558,745
Maintenance of Equipment:					
Depreciation	-	351,429	205,941	-	557,370
Other equipment expenses	-	932,299	565,599	76,767	1,574,665
Total Maintenance of Equipment	-	1,283,728	771,540	76,767	2,132,035
Car Repair:					
Other car repair expenses	-	2,430,947	-	834	2,431,781
Total Car Repair	-	2,430,947	-	834	2,431,781
Transportation:					
Other transportation expenses	-	5,190,002	1,487,749	88,015	6,765,766
Total Transportation	-	5,190,002	1,487,749	88,015	6,765,766
General:					
Administration	-	2,029,321	1,447,223	74,410	3,550,954
Insurance	-	190,752	165,864	53,840	410,456
Total General	-	2,220,073	1,613,087	128,250	3,961,410
Total Operating Expenses	-	12,138,128	4,862,525	849,084	17,849,737
Operating Income	-	2,205,289	2,735,902	(278,875)	4,662,316
Non-operating Revenues (Expenses):					
Other rental income, net	-	1,475,334	-	-	1,475,334
Interest income and gain (loss) on investments	-	44,299	213,176	1,095	258,570
Interest expense	-	-	-	(99,699)	(99,699)
Gain (loss) on sale or disposal of fixed assets	-	1,982,943	4,675	-	1,987,618
Grant revenue	-	3,981,357	-	305,245	4,286,602
Other income, net	-	117,091	54,053	92,400	263,544
Industrial development costs	-	(824,756)	-	-	(824,756)
Total Non-operating Revenues (Expenses)	-	6,776,268	271,904	299,041	7,347,213
Income Before Capital Contributions	-	8,981,557	3,007,806	20,166	12,009,529
Transfers Between Divisions	-	1,000,000	(1,000,000)	-	-
Change in Net Position	-	9,981,557	2,007,806	20,166	12,009,529
Net Position, Beginning of Year	120,000,000	83,644,881	12,288,337	213,119	216,146,337
Net Position, End of Year	$ 120,000,000	93,626,438	14,296,143	233,285	$ 228,155,866

The accompanying notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

PALMETTO RAILWAYS
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
DECEMBER 31, 2019

	ECONOMIC DEVELOPMENT PROJECT FUND	CHS-NCS	CCS	SALKS	TOTAL
Cash Flows from Operating Activities:					
Cash received from customers	$ -	13,074,003	7,470,210	558,226	$ 21,102,439
Cash payments to suppliers and employees	-	(11,405,365)	(3,888,005)	(991,255)	(16,284,625)
Rents received	-	2,678,564	-	21,983	2,700,547
Other income received	-	117,091	54,053	92,400	263,544
Net Cash Provided By (Used In) Operating Activities	-	4,464,293	3,636,258	(318,646)	7,781,905
Cash Flows from Non-Capital Financing Activities:					
Cash received from non-capital grants	-	-	-	305,245	305,245
Cash received from/paid to other divisions	-	1,000,000	(1,000,000)	-	-
Net Cash Provided By (Used In) Non-Capital Financing Activities	-	1,000,000	(1,000,000)	305,245	305,245
Cash Flows from Capital and Related Financing Activities:					
Cash received from sale of fixed assets	-	3,574,921	161,441	-	3,736,362
Cash received from capital grants	-	2,606,240	-	-	2,606,240
Interest paid on loan	-	-	-	(77,498)	(77,498)
Payments for TIF Bonds payable	-	(190,000)	-	-	(190,000)
Acquisition and construction of capital assets	-	(11,552,452)	(47,646)	-	(11,600,098)
Net Cash Provided By (Used In) Capital and Related Financing Activities	-	(5,561,291)	113,795	(77,498)	(5,524,994)
Cash Flows from Investing Activities:					
Investment income	-	44,290	212,068	1,095	257,453
Net Cash Provided By (Used In) Investing Activities	-	44,290	212,068	1,095	257,453
Net Increase (Decrease) in Cash and Cash Equivalents	-	(52,708)	2,962,121	(89,804)	2,819,609
Cash and Cash Equivalents, Beginning of Year	-	5,132,456	7,467,427	112,407	12,712,290
Cash and Cash Equivalents, End of Year	$ -	5,079,748	10,429,548	22,603	$ 15,531,899
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:					
Operating Income (Loss)	$ -	2,205,289	2,735,902	(278,875)	$ 4,662,316
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	-	984,278	178,603	11,003	1,173,884
Non-Cash OPEB expense (contra-expense)	-	148,037	98,692	-	246,729
Non-Cash pension expense (contra-expense)	-	735,006	490,002	-	1,225,008
Non-operating revenues (expenses)	-	767,669	54,053	92,400	914,122
(Increase) decrease in assets:					
Accounts receivable	-	(795,079)	(128,217)	10,000	(913,296)
Accounts receivable from other division	-	(43,896)	-	-	(43,896)
Inventories	-	(13,723)	13,460	-	(263)
Prepayments	-	(252,138)	-	-	(252,138)
Increase (decrease) in liabilities:					
Accounts payable to other division	-	-	182,807	(153,174)	29,633
Accounts payable - other	-	765,998	-	-	765,998
Accrued payroll	-	60,665	-	-	60,665
Payroll taxes withheld and accrued employee benefits	-	(114,249)	-	-	(114,249)
Accrued annual leave	-	16,436	10,956	-	27,392
Net Cash Provided By (Used In) Operating Activities	$ -	4,464,293	3,636,258	(318,646)	$ 7,781,905
Schedule of Non-cash Investing, Capital and Financing Activities:					
Change in capital acquisitions included in accounts payable and deposits	$ -	817,209	-	14,263	$ -
Change in proceeds from grants included in accounts receivable	$ -	(1,375,117)	-	-	$ (1,375,117)

The accompanying notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

NOTE 1 - REPORTING ENTITY

South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the Division) is part of the State of South Carolina Primary Government. The Division is reported as an enterprise fund in the State's Comprehensive Annual Financial Report.

Effective July 1, 1993, as part of the Government Restructuring Act of 1993, Code Section 13-1-1310 created the Division of Public Railways within the Department of Commerce which is governed by the Secretary of the Department of Commerce.

The Department of Commerce is a cabinet agency operating under the governor and is subject to state laws and regulations. The Division however is not subject to the State Procurement Code or Appropriation Act. Also, the Division is not subject to State Human Resource Regulations. The Secretary of the Department of Commerce is responsible for oversight of the Division. The Division has powers of a body corporate including:

1. To sue or be sued, and make contracts.

2. To acquire by purchase or donation and to own, rent, lease, mortgage and dispose of real or personal property.

3. To operate, acquire, construct, maintain and control the tracks and equipment of the Division and be governed by rules and regulations of the Interstate Commerce Commission and its successor, the Surface Transportation Board.

4. To employ and dismiss the employees of the Division and to fix and to pay the compensation thereof.

5. To issue revenue bonds and other obligations, subject to approval by the State Fiscal Accountability Authority (SFAA), to defray the cost of acquisition of other railroads.

The individual subdivisions of the South Carolina Department of Commerce - Division of Public Railways d/b/a Palmetto Railways are funds of the State of South Carolina established by various sections of the Code of Laws of South Carolina. The accompanying financial statements present the financial position, results of operations, and the cash flows solely of the South Carolina Department of Commerce - Division of Public Railways d/b/a Palmetto Railways and do not include any other funds of the State of South Carolina.

The South Carolina Department of Commerce - Division of Public Railways d/b/a Palmetto Railways consists of four separate operating subdivisions: 1) the Charleston Subdivision (CHS) and the North Charleston Subdivision (NCS), 2) the Charity Church Subdivision (CCS), 3) the Salkehatchie Subdivision (SALKS) and 4) the Economic Development Project Fund. The functions of each of the subdivisions are outlined as follows:

a. The Charleston Subdivision and the North Charleston Subdivision (CHS-NCS) have the responsibility of operations of the railroad yards at Charleston Harbor, Cosgrove Yard and the former Navy Base. Switching activity between privately owned railroad lines, industry tracks and seagoing vessels is the primary operation and revenue source.

b. Operation and maintenance of the railroad line constructed in Berkeley County, South Carolina is the primary responsibility of the Charity Church Subdivision (CCS). The railroad was constructed with financing by BP Amoco Chemicals Corporation, its major customer. This came after requests from the Division and the State of South Carolina to service the east side of the Cooper River north of Charleston, South Carolina were denied by the common carrier railroads operating in South Carolina.

NOTE 1 - REPORTING ENTITY (CONTINUED)

c. Operation and maintenance of a railroad line in both Hampton & Colleton County (the Counties) in South Carolina is the primary responsibility of the Salkehatchie Subdivision (SALKS). The railroad had lost its only customer when a SCE&G coal plant on the line ceased operations. The Division worked with the Counties to develop a plan to purchase the railroad and bring new industry to it and the Counties.

d. The Economic Development Project Fund is used to account for land and land improvement contributions received from the South Carolina Department of Commerce which were purchased using proceeds from the State of South Carolina's General Obligation Bond Fund.

The core of the financial reporting entity is the primary government. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all its component units. Component units are legally separate organizations for which the elected officials or the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

1. Determine its budget without another government's having the authority to approve and modify that budget.

2. Levy taxes or set rates or charges without approval by another government.

3. Issue bonded debt without approval by another government.

Based on the application of the above criteria, no component units are included in the reporting entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Division adheres to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB").

The Division maintains separate accounting of its four sub-divisions: 1) the Charleston Subdivision and the North Charleston Subdivision, 2) the Charity Church Subdivision, 3) the SALKS Subdivision and 4) the Economic Development Project Fund. Presented here are the financial statements of the four funds of the South Carolina Department of Commerce - Division of Public Railways d/b/a Palmetto Railways.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

The Division utilizes the accrual basis of accounting. Under the accrual basis of governmental accounting for enterprise funds, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable. Net position is reported in three components: (1) net investment in capital assets, (2) restricted and (3) unrestricted. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The accounting principles utilized by the Division are in conformity with the uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles.

Operating income includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets.

Fund Accounting

The Division uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions or limitations. Separate accounts are maintained for each fund however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions have been reported by fund type.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." The Division reports activities of the enterprise "fund type" under the proprietary fund category. Enterprise funds account for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of services.

Property, Plant, and Equipment

Except for track and roadway, capital assets with a per unit acquisition cost in excess of $5,000 are capitalized and depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Estimated useful lives are as follows:

Buildings	15 - 40 years
Depreciable Road	75 years
Machinery and Equipment	3 - 25 years
Leasehold Improvements	5 - 20 years

Track and roadway are capitalized at cost and depreciation is not recognized. Replacements and repairs are expensed in the period that costs are incurred. Betterments to track and roadway are capitalized.

Inventories

Inventories consisting of materials and supplies are stated at the lower of cost or market using the weighted average method.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Policy for Uncollectible Accounts

Management reviews past due accounts receivable and records an allowance for any amounts deemed to be uncollectible, if any. All receivables are shown net of any allowance for uncollectibles.

Intra-division Transactions and Balances

Transactions among the subdivisions of the Division have been eliminated for purposes of the combined financial statements presented herein. Administration overhead incurred is divided between CHS-NCS, CCS and SALKS. Overhead of the subdivisions is split, 40% to CCS and 60% to CHS-NCS. Of the 60% to CHS-NCS, $3,500 in overhead is allocated to the SALKS monthly. Overhead expense includes superintendence, depreciation, and general administrative expenses.

Statement of Cash Flows

For purposes of this statement, the Division considers deposits with State of South Carolina cash management pool to be cash equivalents because they are readily convertible to cash with an insignificant risk of loss in value.

Cash and Cash Equivalents

The amounts shown in the financial statements as "*cash and cash equivalents*" represent cash on deposit with the State Treasurer and cash invested in various investments by the State Treasurer as part of the State's internal cash management pool.

Because the State’s internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and invest in certain debt obligations of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Most State agencies participate in the State’s internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an original maturity of three months or less.

Cash equivalents: The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and the State's internal cash management pool. The State’s internal cash management pool is comprised of the general deposit account and several special deposit accounts. The State records each agency's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Agencies record and report their deposits in the general deposit account at cost. However, agencies report their deposits in the special deposit accounts at fair value. Investments in the pool are recorded at fair value. Interest earned by the agencies' special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value.

The Division only has special deposit accounts. Realized gains and losses are allocated and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the agency’s percentage of ownership in the pool.

Although the State’s internal cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 3.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of these balances as of the date of the financial statements. In addition, they affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Division currently has two types of deferred outflows of resources: (1) The Division reports *deferred pension charges* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and the South Carolina Police Officers Retirement System. (2) The Division reports *deferred OPEB charges* in its Statement of Net Position in connection with its participation in the South Carolina Retiree Health Insurance Trust Fund. The *deferred pension and OPEB charges* are either (a) recognized in the subsequent period as a reduction of the net position/OPEB liability (which includes contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension/OPEB expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Division currently has two types of deferred inflows of resources: (1) The Division reports *deferred pension credits* in its Statement of Net Position in connection with its participation in the South Carolina Retirement System and South Carolina Police Officers Retirement System. (2) The Division reports *deferred OPEB credits* in its Statement of Net Position in connection with its participation in the South Carolina Retiree Health Insurance Trust Fund. The *deferred pension and OPEB credits* are amortized in a systematic and rational method and recognized as a reduction of pension/OPEB expense in future periods in accordance with GAAP.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the Statement of Net Position. Net position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt which has not been spent is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions and Other Postemployment Benefits ("OPEB")

The Division recognizes net pension and net OPEB liabilities for each plan in which it participates, which represents the excess of the total pension and OPEB liabilities over the fiduciary net position of the qualified plan, or the Division's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the Division's fiscal year-end. Changes in the net pension and OPEB liabilities during the period are recorded as pension and OPEB expenses, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension and OPEB liabilities that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified plan and recorded as a component of pension and OPEB expense beginning with the period in which they are incurred. Projected earnings on qualified pension and OPEB plan investments are recognized as a component of pension and OPEB expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension and OPEB expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

NOTE 3 - DEPOSITS

All deposits of the Division are under the control of the State Treasurer who, by law, has sole authority for investing state funds.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At December 31, 2019, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at original cost with the exception of certain assets received from the South Carolina Ports Authority (SCPA), which are recorded at net book value at the time of receipt. Depreciation is computed on the straight-line method.

On December 5, 2012 the Division agreed to sign a Settlement Agreement and Release (the "Agreement") to settle and release six civil actions in which the Division was the defendant. As part of the agreement, the Division assumed $6,360,000 in Tax Increment Financing ("TIF") Bonds for the Navy Base Redevelopment Project. The Division also agreed to pay $8,000,000 to the City of North Charleston (the "City") to mitigate rail access impacts. The $6,360,000 and $8,000,000 are included as projects under construction for the proposed Navy Base Intermodal Facility. See Notes 14 and 15 for more information.

During 2019, the Division sold two buildings on the former Navy Base for $3,551,050. The proceeds were used to fund the Navy Base Intermodal Facility project.

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

A summary of property, plant, and equipment by subdivision is as follows:

Economic Development Project Fund

	Balance 12/31/2018	Transfers In (Out)	Additions	Deletions	Balance 12/31/2019
Non-depreciable capital assets:					
Land	$ 49,092,711	-	-	-	$ 49,092,711
Land Improvements	70,907,289	-	-	-	70,907,289
Total non-depreciable capital assets	120,000,000	-	-	-	120,000,000
Net capital assets	$ 120,000,000	-	-	-	$ 120,000,000

CHS-NCS

	Balance 12/31/2018	Transfers In (Out)	Additions	Deletions	Balance 12/31/2019
Non-depreciable capital assets:					
Land	$ 19,002,106	-	-	-	$ 19,002,106
Land improvements	3,507,686	-	-	-	3,507,686
Non-depreciable road	9,797,871	647,512	-	-	10,445,383
Projects under construction	94,110,675	(1,023,400)	11,942,230	541,286	104,488,219
Total non-depreciable capital assets	126,418,338	(375,888)	11,942,230	541,286	137,443,394
Depreciable capital assets:					
Land improvements	110,578	-	-	-	110,578
Buildings	16,687,338	83,997	72,627	1,085,483	15,758,479
Machinery and equipment	5,545,690	537,450	437,414	-	6,520,554
Depreciable road	246,509	291,891	-	-	538,400
Leasehold improvements	516,559	-	-	-	516,559
Total depreciable capital assets	23,106,674	913,338	510,041	1,085,483	23,444,570
Accumulated depreciation:					
Land improvements	92,848	-	5,910	-	98,758
Buildings	2,212,975	(165,420)	447,832	34,791	2,460,596
Machinery and equipment	3,974,127	504,814	463,951	-	4,942,892
Depreciable road	79,630	41,290	14,930	-	135,850
Leasehold improvements	172,187	-	51,655	-	223,842
Total accumulated depreciation	6,531,767	380,684	984,278	34,791	7,861,938
Net depreciable capital assets	16,574,907	532,654	(474,237)	1,050,692	15,582,632
Net capital assets	$142,993,245	156,766	11,467,993	1,591,978	$153,026,026

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

CCS

	Balance 12/31/2018	Transfers In (Out)	Additions	Deletions	Balance 12/31/2019
Non-depreciable capital assets:					
Land	$ 627,419	-	-	-	$ 627,419
Land improvements	6,027,549	-	-	-	6,027,549
Non-depreciable road	3,503,437	-	-	-	3,503,437
Total non-depreciable capital assets	10,158,405	-	-	-	10,158,405
Depreciable capital assets:					
Buildings	1,115,565	-	11,997	-	1,127,562
Machinery and equipment	2,451,382	(537,450)	35,649	-	1,949,581
Depreciable road	945,851	-	-	-	945,851
Total depreciable capital assets	4,512,798	(537,450)	47,646	-	4,022,994
Accumulated depreciation:					
Buildings	938,937	-	13,234	-	952,171
Machinery and equipment	1,168,113	(380,684)	151,956	-	939,385
Depreciable road	478,616	-	13,413	-	492,029
Total accumulated depreciation	2,585,666	(380,684)	178,603	-	2,383,585
Net depreciable capital assets	1,927,132	(156,766)	(130,957)	-	1,639,409
Net capital assets	$ 12,085,537	(156,766)	(130,957)	-	$ 11,797,814

SALKS

	Balance 12/31/2018	Transfers In (Out)	Additions	Deletions	Balance 12/31/2019
Non-depreciable capital assets:					
Land	$ 559,606	-	14,263	-	$ 573,869
Non-depreciable road	6,413,030	-	-	-	6,413,030
Total non-depreciable capital assets	6,972,636	-	14,263	-	6,986,899
Depreciable capital assets:					
Buildings	165,043	-	-	-	165,043
Total depreciable capital assets	165,043	-	-	-	165,043
Accumulated depreciation:					
Buildings	17,421	-	11,003	-	28,424
Total accumulated depreciation	17,421	-	11,003	-	28,424
Net depreciable capital assets	147,622	-	(11,003)	-	136,619
Net capital assets	$ 7,120,258	-	3,260	-	$ 7,123,518

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

COMBINED

	Balance 12/31/2018	Transfers In (Out)	Additions	Deletions	Balance 12/31/2019
Non-depreciable capital assets:					
Land	$ 69,281,842	-	14,263	-	$ 69,296,105
Land improvements	80,442,524	-	-	-	80,442,524
Non-depreciable road	19,714,338	647,512	-	-	20,361,850
Projects under construction	94,110,675	(1,023,400)	11,942,230	541,286	104,488,219
Total non-depreciable capital assets	263,549,379	(375,888)	11,956,493	541,286	274,588,698
Depreciable capital assets:					
Land improvements	110,578	-	-	-	110,578
Buildings	17,967,946	83,997	84,624	1,085,483	17,051,084
Machinery and equipment	7,997,072	-	473,063	-	8,470,135
Depreciable road	1,192,360	291,891	-	-	1,484,251
Leasehold improvements	516,559	-	-	-	516,559
Total depreciable capital assets	27,784,515	375,888	557,687	1,085,483	27,632,607
Accumulated depreciation:					
Land improvements	92,848	-	5,910	-	98,758
Buildings	3,169,333	(165,420)	472,069	34,791	3,441,191
Machinery and equipment	5,142,240	124,130	615,907	-	5,882,277
Depreciable road	558,246	41,290	28,343	-	627,879
Leasehold improvements	172,187	-	51,655	-	223,842
Total accumulated depreciation	9,134,854	-	1,173,884	34,791	10,273,947
Net depreciable capital assets	18,649,661	375,888	(616,197)	1,050,692	17,358,660
Net capital assets	$282,199,040	-	11,340,296	1,591,978	$291,947,358

Depreciation expense for the period by subdivision and in total was as follows: CHS-NCS $984,278, CCS $178,603, and SALKS $11,003, Total - $1,173,884. Depreciation on assets used across multiple divisions is allocated as discussed in Note 2. Included in other rental income-net and leased track is $338,599 of depreciation on buildings that are held for rent and $51,655 in amortization of leased track, respectively. The cost of the leased buildings is $12,418,021 and net book value is $11,339,662. See Note 9 for more information.

As of December 31, 2019, the Division had remaining commitments of $14,994,866 relating to construction and mitigation at the Navy Base Intermodal Facility and $13,505,140 related to the Camp Hall project. The Camp Hall project consists of building a rail connection from a new industrial site located in Berkeley County to the CSX Transportation mainline.

NOTE 5 – ACCRUED ANNUAL LEAVE

Non-union employees are entitled to accrue and carry forward at calendar year end a maximum of 195 days sick leave and 45 days annual vacation leave. Upon termination of employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days but are not entitled to any payment for unused sick leave. Employees do not accrue or carry forward holiday leave, compensatory time, or overtime.

Union employees can earn up to 25 days annual vacation leave per year, but do not earn any sick leave. Union employees do not carry forward any unused vacation leave; however, unusual vacation leave is paid out at year-end. Upon termination of employment, union employees are entitled to be paid for accumulated unused annual vacation leave up to 25 days. Union employees do not accrue or carry forward holiday leave, compensatory time, or overtime.

NOTE 5 – ACCRUED ANNUAL LEAVE (CONTINUED)

The Division calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments is recorded as a liability. The net change in the liability is recorded in the current year in the applicable operating department.

NOTE 6 – UNEARNED REVENUE/OPERATING LEASES/OPERATING RENTAL REVENUE

Effective March 4, 1994, CHS-NCS began leasing land and improvements in Spartanburg County, South Carolina for $200,000 a year. The lease is for ten years with two ten-year options to renew. During the lease term the lessee has the right to purchase the land and improvements for CHS-NCS's cost not to exceed $5,000,000. The rent is paid at the beginning of each year's anniversary for one-year effective March 4, 1994 and will be adjusted annually based on 90-day Treasury bill rates. The initial rent was based on a 4% annual return on the initial investment of $2,000,000, which is why Treasury bill rates will be used to determine changes in the annual rent. The Division's total investment in this project ended up being $4,365,595 which is the amount on which a new rental rate will be determined annually effective March 4. The annual rental rate determined at March 4, 2018 was $200,000 and at March 4, 2019 was $200,000. The land is used as a railroad spur to the BMW plant. In February 2014, this lease was extended for the final 10-year renewal term through March 3, 2024. During 2019, $200,000 was recognized as operating rental revenue and $33,334 was unearned revenue based on the terms of this agreement. Also, effective March 4, 1996, the Division began receiving revenue on certain car hauls out of the BMW plant by Norfolk Southern. This amounted to $715,265 in 2019 and is included in freight income.

On December 15, 2010 the Division was deeded over approximately 240 acres of property and approximately 65 buildings at the former Navy Base and on October 9, 2013 the Division purchased additional property and buildings, see Note 4 and Note 9 for more information. The property has several commercial leases ranging from month to month leases to nine-year leases. See Note 9 for total revenue and expenses related to the property.

In December 2013, the Division entered into agreements with the Boeing Company for the development of a total of approximately 468 acres of land through December 31, 2027 with one six-year and six five-year options to renew. In consideration for the exclusive use of the leased property, the Boeing Company agreed to pay $1.00 per year for each year of the initial lease term. Additional rent provisions will be applicable for the extension terms. In consideration of the Boeing Company's planned improvements to and use of the property, the Boeing Company will have the option of purchasing the property, including any improvements, for a purchase price equal to the price paid on behalf of the Division to acquire the property. The option to purchase may be exercised at the end of the initial lease term or during any extension term.

Minimum rentals on non-cancelable leases based on current year rates are as follows:

Year Ended December 31,	Future Minimum Rentals
2020	$ 1,070,035
2021	702,815
2022	451,072
2023	343,706
2024	167,530
2025-2027	393,101
Total	$ 3,128,259

NOTE 6 – UNEARNED REVENUE/OPERATING LEASES/OPERATING RENTAL REVENUE (CONTINUED)

In June 2018, the Division acquired a federal building through a property transfer with the City of North Charleston as discussed in Note 14. The lease was originally executed in January 2002 by the Charleston Redevelopment Authority ("RDA") for a period of 50 years and was assumed by the Division through the property transfer discussed previously. The rent due under the lease is $1.00 annually; however, the Division receives a portion of South Carolina income tax withholdings from federal employees working in the building under SC Code of Laws Section 12-10-88 passed through the RDA. The funding authorization for the RDA expires in December 2027 but may extended. As a result of the variability of payments, the future minimum rentals for this lease is not included in the future minimum rentals above.

NOTE 7 – LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligation activity for the year ended December 31, 2019:

	January 1, 2019	Increases	Decreases	December 31, 2019	Due Within One Year
Compensated absences:					
CHS-NCS	$ 164,898	162,238	145,802	181,334	$ 160,334
CCS	109,933	108,157	97,201	120,889	106,889
	274,831	270,395	243,003	302,223	267,223
Note Payable	51,000,000	-	-	51,000,000	51,000,000
TIF Bonds Payable	5,375,000	-	190,000	5,185,000	195,000
Salkehatchie Loan	6,500,000	-	-	6,500,000	-
Total long-term obligations	$ 63,149,831	270,395	433,003	62,987,223	$ 51,462,223

The note payable represents an interest free loan agreement with the South Carolina Department of Commerce – SC Coordinating Council for Economic Development in an amount not to exceed $55 million. The loan was amended for the fourth time in October 2019 to extend the loan until April 30, 2020. Subsequent to December 31, 2019, the loan was amended for the fifth time to extend the loan until June 30, 2021. The loan is payable on demand with sixty days written notice from the Coordinating Council or the Division. The loan proceeds are being used for civil work costs related to the Navy Base Intermodal Facility until the Division secures long-term financing for the project. Once obtained, the proceeds from the long-term financing will be used to repay the loan. As of the issuance of these financial statements, the long-term financing has not been obtained.

See Notes 14 and 15 for a detailed description of the TIF bonds payable and the Salkehatchie loan payable.

NOTE 8 – OTHER REVENUE

The category under "Operating Revenues" entitled "Other Revenue," is used to report miscellaneous income. For the year ended December 31, 2019 it consists of offset charges of $30,363 received by CHS-NCS from the SCPA discussed in Note 12, $14,989 from the sale of scrap metal from operations for CHS-NCS, and $500 from the sale of scrap for CCS.

NOTE 9 – OTHER RENTAL INCOME, NET, NON-OPERATING REVENUES

The Division leases several buildings and parking spaces. The revenue and expenses for 2019 were as follows:

Rental revenue	$ 2,248,125
Less: expenses	
Depreciation	338,599
Landscaping and janitorial	222,886
Utilities	26,664
Maintenance	39,962
Property tax and disposal fees	69,961
Insurance	29,579
Other Services	45,140
Total expenses	772,791
Net Income	$ 1,475,334

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS

South Carolina Retirement Systems ("Systems")

The Division participates in the State of South Carolina's retirement plans. The South Carolina Public Employee Benefit Authority ("PEBA"), created July 1, 2012, is the state agency responsible for the administration and management of the various retirement systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit plans. PEBA has an 11-member Board of Directors ("PEBA Board"), appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with GAAP. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

The PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the System's Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. The PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Descriptions

The South Carolina Retirement System ("SCRS"), a cost–sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

The State Optional Retirement Program ("State ORP") is a defined contribution plan that is offered as an alternative to the SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts, and individuals first elected to the South Carolina General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party record keepers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

The South Carolina Police Officers Retirement System ("PORS"), a cost–sharing multiple-employer defined benefit pension plan, was established July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits to police officers and firefighters. PORS also covers peace officers, coroners, probate judges and magistrates.

Plan Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.

- State ORP - As an alternative to membership in the SCRS, newly hired state, public school, and higher education employees and individuals first elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as the SCRS. A direct remittance is required from the employers to the member's account with the ORP service provider for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to the SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by the SCRS.

- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least $2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

  The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

  The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. If the scheduled employee and employer contributions provided in the statute, or the rates last adopted by the board, are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rate as necessary.

After June 30, 2027, if the most recent actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than eighty-five percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than eighty-five percent. If contribution rates are decreased pursuant to this provision, and the most recent actuarial valuation of the system shows a funded ratio of less than eighty-five percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than eighty-five percent.

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Contributions (Continued)

The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS, respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization schedule.

Required employer and employee contribution rates for the past three years are as follows:

	SCRS and State ORP Rates				PORS Rates			
	Effective Date				Effective Date			
	7/1/2016	7/1/2017	7/1/2018	7/1/2019	7/1/2016	7/1/2017	7/1/2018	7/1/2019
Employer Contribution Rate:^								
Retirement*	11.41%	13.41%	14.41%	15.41%	13.84%	15.84%	16.84%	17.84%
Incidental Death Benefit	0.15%	0.15%	0.15%	0.15%	0.20%	0.20%	0.20%	0.20%
Accidental Death Contributions	0.00%	0.00%	0.00%	0.00%	0.20%	0.20%	0.20%	0.20%
	11.56%	13.56%	14.56%	15.56%	14.24%	16.24%	17.24%	18.24%
Employee Contribution Rate	8.66%	9.00%	9.00%	9.00%	9.24%	9.75%	9.75%	9.75%

^ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

* Of the rate for the State ORP Plan, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

The required contributions and percentages of amounts contributed by the Division to the Plans for the past three years were as follows:

Year Ended	SCRS Contributions		State ORP Contributions		PORS Contributions	
December 31,	Required	% Contributed	Required	% Contributed	Required	% Contributed
2019	$ 759,563	100%	82,864	100%	$ -	100%
2018	661,493	100%	89,740	100%	-	100%
2017	$ 547,914	100%	99,574	100%	$ 6,285	100%

In an effort to help offset a portion of the burden of the increased contribution requirement for employers, the State General Assembly ("State") funded 1 percent of the SCRS and PORS contribution increases for the year ended June 30, 2019. The State's budget appropriated these funds directly to the PEBA for the South Carolina Retirement System Trust Fund and the Police Officers Retirement System Trust Fund. The amount of funds appropriated by the State (nonemployer contributing entity) for the year ended June 30, 2019 (measurement date) to the Division were approximately $47,000 and $1,000 for the SCRS and PORS, respectively. The Division recognized contributions from the State of approximately $47,000 for the year ended December 31, 2019; however, the Division was unable to recognize the $1,000 appropriated for the PORS as the Division no longer participates in the PORS.

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Plan Contributions (Continued)

Eligible payrolls of the Division covered under the Plans for the past three years were as follows:

Year Ended December 31,	SCRS Payroll	State ORP Payroll	PORS Payroll	Total Payroll
2019	$ 5,023,667	551,374	-	$ 5,575,041
2018	4,698,204	638,972	-	5,337,176
2017	$ 4,358,236	793,855	42,144	$ 5,194,235

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires than an experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2015.

The June 30, 2019 total pension liability ("TPL"), net pension liability ("NPL"), and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on the July 1, 2018 actuarial valuations as adopted by the PEBA Board and the SFAA which utilized membership data as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the Plan's fiscal year ended June 30, 2019 using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2019.

	SCRS	PORS
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Investment Rate of Return*	7.25%	7.25%
Projected Salary Increases*	3.0% to 12.5% (varies by service)	3.5% to 9.5% (varies by service)
Benefit Adjustments	Lesser of 1% or $500 annually	Lesser of 1% or $500 annually

* Includes inflation at 2.25%.

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality Table ("2016 PRSC"), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016. Assumptions used in the determination of the June 30, 2019 TPL are as follows.

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Actuarial Assumptions and Methods (Continued)

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

Net Pension Liability

The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of the June 30, 2019 measurement date, for the SCRS and PORS are presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$ 50,073,060,256	27,238,916,138	$ 22,834,144,118	54.4%
PORS	$ 7,681,749,768	4,815,808,554	$ 2,865,941,214	62.7%

The TPL is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB No. 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the Plans' funding requirements.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon the 20-year capital market assumptions. The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted at the beginning of the 2019 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	**51.0%**		
Global Public Equity	35.0%	7.29%	2.55%
Private Equity	9.0%	7.67%	0.69%
Equity Options Strategies	7.0%	5.23%	0.37%
Real Assets	**12.0%**		
Real Estate (Private)	8.0%	5.59%	0.45%
Real Estate (REITs)	1.0%	8.16%	0.08%
Infrastructure (Private)	2.0%	5.03%	0.10%
Infrastructure (Public)	1.0%	6.12%	0.06%
Opportunistic	**8.0%**		
GTAA/Risk Parity	7.0%	3.09%	0.22%
Other Opportunistic Strategies	1.0%	3.82%	0.04%
Credit	**15.0%**		
High Yield Bonds/Bank Loans	4.0%	3.14%	0.13%
Emerging Markets Debt	4.0%	3.31%	0.13%
Private Debt	7.0%	5.49%	0.38%
Rate Sensitive	**14.0%**		
Core Fixed Income	13.0%	1.62%	0.21%
Cash and Short Duration (Net)	1.0%	0.31%	0.00%
Total Expected Real Return	100.0%		5.41%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.66%

Discount Rate

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in the SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Sensitivity Analysis

The following table presents the sensitivity of the Division's proportionate share of the NPL of the Plans to changes in the discount rate, calculated using the discount rate of 7.25 percent, as well as what it would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Sensitivity Analysis (Continued)

System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
The Division's proportionate share of the net pension liability of the SCRS	$ 14,572,193	11,567,154	$ 9,059,274
The Division's proportionate share of the net pension liability of the PORS	8,477	6,255	4,435
Total Pension Liability	$ 14,580,670	11,573,409	$ 9,063,709

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At December 31, 2019, the Division reported liabilities of approximately $11,567,000 and $6,000 for its proportionate share of the net pension liabilities for the SCRS and PORS (“Plans”), respectively. The net pension liabilities were measured as of June 30, 2019, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined based on the most recent actuarial valuation report as of July 1, 2018 that was projected forward to the measurement date. The Division’s proportion of the net pension liabilities were based on a projection of the Division’s long-term share of contributions to the Plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2019 measurement date, the Division’s SCRS proportion was 0.050657 percent, which was an increase of 0.003219 percent from its proportion measured as of June 30, 2018. At the June 30, 2019 measurement date, the Division’s PORS proportion was 0.000218 percent, which was a decrease of 0.000805 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the Division recognized pension expense of approximately $1,246,000 and contra-expense of approximately $21,000 for the SCRS and PORS, respectively. At December 31, 2019, the Division reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	$ 7,951	$ 83,096
Changes in Assumptions	233,095	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	102,407	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	726,436	-
Division Contributions Subsequent to the Measurement Date	418,111	-
Total SCRS	1,488,000	83,096
PORS		
Differences Between Expected and Actual Experience	129	46
Changes in Assumptions	248	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	79	-
Changes in Proportionate Share and Differences Between Employer Contributions and Proportionate Share of Total Plan Employer Contributions	283	55,129
Total PORS	739	55,175
Total SCRS and PORS	$ 1,488,739	$ 138,271

NOTE 10 – PENSION PLANS AND EMPLOYEE BENEFIT PLANS (CONTINUED)

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Approximately $418,000 that was reported as deferred outflows of resources related to the Division's contributions subsequent to the measurement date to the SCRS will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS and PORS will increase (decrease) pension expense as follows:

Year Ended December 31,	SCRS	PORS	Total
2020	$ 648,390	(21,213)	$ 627,177
2021	113,801	(21,615)	92,186
2022	180,886	(10,598)	170,288
2023	43,716	(1,010)	42,706
Total	$ 986,793	(54,436)	$ 932,357

Plans Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plans administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

Payable to Plans

The Division reported a payable of approximately $141,000 to the PEBA as of December 31, 2019, representing required employer and employee contributions for the month of December 2019 for the SCRS. This amount is included in Accounts Payable on the financial statements and was paid in January 2020.

Railroad Retirement System

The Division contributed $1,176,286 in the year ended December 31, 2019 to the U.S. Railroad Retirement System, which covers all employees. CHS-NCS contributed $843,731, CCS $285,603, and SALKS $46,952. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2019, wages up to $132,900 were funded at 6.2 percent by the Division and 6.2 percent by the employee to meet Tier I funding requirements and all wages were funded at 1.45 percent by the Division to meet Tier I Medicare funding requirements. The Division funded wages up to $98,700 at 13.1 percent to meet Tier II funding requirements. Employees paid 4.9 percent on wages up to $98,700.

The U. S. Railroad Retirement Board, in accordance with the Railroad Retirement Acts, administers this plan.

Data concerning the actuarial status of the U.S. Railroad Retirement System as related to the Division is not available. The Division is not liable for any unfunded costs associated with the plan and recognized no contingent liability for such cost.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

The PEBA is the state agency responsible for the administration and management of the state's employee insurance programs, other postemployment benefits trusts, and retirement systems. The laws of the State and the policies and procedures specified by the State for State agencies are applicable to all activities of the PEBA. By law, the SFAA also reviews certain PEBA Board decisions in administering the State Health Plan and other postemployment benefits ("OPEB"). See Note 10 for more details on the PEBA and the SFAA.

The PEBA – Insurance Benefits issues audited financial statements and required supplementary information for the OPEB trust funds. This information is publicly available through the Insurance Benefits' link on the PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to the PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. The PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Descriptions

The Other Postemployment Benefits Trust Funds ("OPEB Trusts" or "OPEB Plans"), collectively refers to the South Carolina Retiree Health Insurance Trust Fund ("SCRHITF") and the South Carolina Long-Term Disability Insurance Trust Fund ("SCLTDITF"), were established by the State of South Carolina as Act 195, which became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability ("BLTD") Income Benefit Plan.

In accordance with Act 195, the OPEB Trusts are administered by the PEBA – Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The PEBA Board has been designated as the Trustee.

The OPEB Trusts are cost-sharing multiple-employer defined benefit OPEB plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides postemployment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents.

Plan Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees that have been approved for disability. Since the employer contribution/premium paid and the proportionate share of the net OPEB liability and related deferred outflows and inflows of resources related to the SCLTDITF are not material to the Division, no SCLTDITF OPEB amounts have been recorded in these financial statements and only limited note disclosures have been provided related to these benefits.

Plan Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits services.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Contributions and Funding Policies (Continued)

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions include the mandatory transfer of accumulated PEBA – Insurance Benefits' reserves and the annual appropriation budgeted by the General Assembly. It is also funded through investment income.

The covered payroll surcharge rates for the past three years were as follows:

	Effective Date			
	7/1/2016	7/1/2017	7/1/2018	7/1/2019
Employer Contribution Rate^	5.33%	5.50%	6.05%	6.25%

^ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

The required payroll surcharge, percentages of amounts contributed, and eligible payroll by the Division covered by the SCRHITF for the past three years were as follows:

Year Ended	Contributions		
December 31,	Required	% Contributed	Eligible Payroll
2019	$ 342,830	100%	$ 5,575,042
2018	308,677	100%	5,337,176
2017	$ 281,289	100%	$ 5,194,235

The State (via state appropriations) and the PEBA-Insurance Benefits (via state statute to transfer amounts above 140% of incurred but not reported claims) contributed to the SCRHITF on behalf of the Division $65,549 for the year ended June 30, 2019 (measurement period). The contributions from these nonemployer contributing entities were not considered material to the Division and have not been recorded in these financial statements.

In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The total OPEB liability, net OPEB liability, and sensitivity information were determined by the consulting actuary and are based on the June 30, 2018 actuarial valuation. The total OPEB liability was rolled-forward from the valuation date to the OPEB plan's fiscal year ended June 30, 2019 using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used in the latest valuation for the SCRHITF:

Valuation Date:	June 30, 2018
Actuarial Cost Method:	Entry Age Normal
Actuarial Assumptions:	
Inflation:	2.25%
Investment Rate of Return:	2.75%, net of OPEB plan investment expense, including inflation
Single Discount Rate:	3.13% as of June 30, 2019
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement System for the five-year period ending June 30, 2015
Mortality:	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the based tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 6.40% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 14 years
Aging Factors:	Based on plan specific experience
Retiree Participation:	79% for retirees who are eligible for funded premiums; 59% for retirees who are eligible for partial funded premiums; 20% for retirees who are eligible for non-funded premiums
Notes:	There were no benefit changes during the year; the discount rate changed from 3.62% as of June 30, 2018 to 3.13% as of June 30, 2019; minor updates were made to the healthcare trend rate assumption

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. For actuarial purposes, the 2.75 percent assumed annual investment rate of return includes a 0.50 percent real rate of return and a 2.75 percent inflation component. This information is summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Conservative Fixed Income	**100.0%**		
US Domestic Fixed Income	80.0%	0.60%	0.48%
Cash	20.0%	0.10%	0.02%
Total Expected Real Return	100.0%		0.50%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			2.75%
Investment Return Assumption			4.00%

Single Discount Rate

The Single Discount Rate of 3.13% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the SCRHITF's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

The net OPEB liability ("NOL") is calculated separately for each system and represents that particular system's total OPEB liability determined in accordance with GASB No. 74 less its fiduciary net position. NOL totals, as of the June 30, 2019 measurement date for the SCRHITF , are presented in the following table:

System	Total OPEB Liability	OPEB Plan Fiduciary Net Position	Employers' Net OPEB Liability (Asset)	OPEB Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
SCRHITF	$ 16,516,264,617	1,394,740,049	$ 15,121,524,568	8.4%

The total OPEB liability is calculated by PEBA's actuary, and the fiduciary net position is reported in the PEBA's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB No. 74 in the PEBA's notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 are not applicable for other purposes, such as determining the OPEB Plans' funding requirements.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

At December 31, 2019, the Division reported a liability of $9,606,705 for its proportionate share of the net OPEB liability for the SCRHITF. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability for the SCRHITF used to calculate the net OPEB liability was determined based on the most recent actuarial valuation report of June 30, 2018 that was projected forward to the measurement date. The Division's proportion of the net OPEB liability was based on a projection of the Division's long-term share of contributions to the SCRHITF relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2019 measurement date, the Division's proportion was 0.06353 percent, which was an increase of 0.00328 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the Division recognized OPEB expense of $246,729 for the SCRHITF. At December 31, 2019, the Division reported deferred outflows of resources (deferred OPEB charges) and deferred inflows of resources (deferred OPEB credits) related to OPEBs from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 113,121	$ 312,270
Change in Assumptions	635,684	594,899
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	11,237	-
Changes in Proportion and Differences Between the Employer's Contributions and Proportionate Share of Contributions	425,337	2,528
Employer Contributions Subsequent to the Measurement Date	173,132	-
Total	$ 1,358,511	$ 909,697

The Division reported $173,132 of deferred outflows of resources related to its contributions subsequent to the measurement date to the SCRHITF, which will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources (deferred OPEB charges) and deferred inflows of resources (deferred OPEB credits) related to the SCRHITF will increase (decrease) OPEB expense as follows:

Year Ended December 31,	Increase (Decrease) OPEB Expense
2020	$ 11,094
2021	11,094
2022	7,398
2023	1,540
2024	103,167
Thereafter	141,389
Total	$ 275,682

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

The following table presents the sensitivity of the Division's net OPEB liability for the SCRHITF to changes in the discount rate, calculated using the discount rate of 3.13%, as well as what it would be if it were calculated using a discount rate that is 1% point lower (2.13%) or 1% point higher (4.13%) than the current rate:

	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
Net OPEB Liability	$ 11,388,631	9,606,705	$ 8,176,635

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following table presents the sensitivity of the Division's net OPEB liability to changes in the healthcare cost trend rate, calculated using the healthcare cost trend rate of 6.40% decreasing to 4.15%, as well as what it would be if it were calculated using a healthcare cost trend rate that is 1% point lower (5.40% decreasing to 3.15%) or 1% point higher (7.40% decreasing to 5.15%) than the current rate:

	1% Decrease (5.40% decreasing to 3.15%)	Current Healthcare Cost Trend Rate (6.40% decreasing to 4.15%)	1% Increase (7.40% decreasing to 5.15%)
Net OPEB Liability	$ 7,840,097	9,606,705	$ 11,907,349

OPEB Plans' Fiduciary Net Position

Detailed information regarding the fiduciary net position of the OPEB Plans administered by the PEBA is available in the separately issued financial statements and required supplementary information for the South Carolina Public Employee Benefit Authority, Insurance Benefits and Other Post Employment Benefits Trust Funds. This information is publicly available through the Insurance Benefits' link on the PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to the PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223.

NOTE 12 - TRANSACTIONS WITH STATE ENTITIES

During 2015, the Division entered into an interest free loan agreement with the South Carolina Department of Commerce – SC Coordinating Council for Economic Development in an amount not to exceed $55 million. The loan was amended for the fourth time in October 2019 to extend the loan until April 30, 2020. Subsequent to December 31, 2019, the loan was amended for the fifth time to extend the loan until June 30, 2021. The loan is payable on demand with sixty days written notice from the Coordinating Council or the Division. The loan proceeds are being used for civil work costs related to the Navy Base Intermodal Facility until the Division secures long-term financing for the project. Once obtained, the proceeds from the long-term financing will be used to repay the loan. See Note 7 regarding long-term obligations.

The SCPA paid CHS-NCS monthly offset charges. In 1988, the SCPA took possession of a certain area of trackage at the Port Terminal Railroad which caused CHS-NCS to lose operating revenues. The SCPA stopped paying CHS-NCS for the loss of revenue in April 2019. The amount paid to CHS-NCS was $30,363 in 2019 and is included in other operating revenues. See Note 8 regarding other revenue.

Services received at no cost from State agencies include banking and investment functions from the State Treasurer and retirement and insurance plan administration from the PEBA. The Division had financial transactions with various State agencies during the year ended December 31, 2019 as listed below:

NOTE 12 - TRANSACTIONS WITH STATE ENTITIES (CONTINUED)

State Entity	Payments	Description
SC Deferred Compensation	$ 54,280	Employee Payroll Deductions
SC Department of Administration	353	Telephone
SC Department of Health and Environmental Control	1,542	Advertisement Reimbursement and Stormwater Fee Permits
SC Department of Motor Vehicles	87	Trailer registration
SC Department of Revenue	314,639	Employee Payroll Deductions and Sales Tax
SC Department of Social Services	8,881	Employee Payroll Deductions
SC Public Employee Benefit Authority	509,033	Health Insurance
SC Retirement Systems	1,154,689	Employer Retirement Contributions
SC State Fiscal Accountability Authority	119,636	Property, Casualty and Tort Insurance
SC State Ports Authority	10,473	Electric and Rent
	$ 2,173,613	

NOTE 13 - OPERATING LEASES

The Division and the SCPA entered into an agreement, effective July 1, 1976, allowing the Division to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The Division is now occupying these premises on a month-to-month lease. The monthly rental charge of $300 was through March 2019 and has been waived in subsequent months. The Division incurred $900 for rental of this building in 2019. The Division is required to carry insurance for property damage and to maintain and repair the leased building. This amount is included in general administration expenses.

On August 29, 2017, the Division entered into a lease with Southeastern Value Puritan Mill, LLC to lease office space for a project office. The monthly rent is $2,921 and the Division incurred $32,534 of rent expense in 2019. This amount is included in general administration expenses.

NOTE 14 – SETTLEMENT AGREEMENT AND RELEASE

The City of North Charleston (“North Charleston”) and the North Charleston Sewer District (“Sewer District”) agreed to sign a Settlement Agreement and Release (the “Agreement”) to settle and release six civil actions in which North Charleston or the Sewer District were the plaintiff and the Division was the defendant in December 2012 with an effective date of March 2013. The Agreement was necessary to obtain land for the Division to plan and construct a Navy Base Intermodal Facility on the former Navy Base. The terms of the agreement included the following:

1. The Division paid North Charleston $8,000,000 to mitigate rail access impacts with the last of the 4 installments paid in March 2016.
2. The Division assumed approximately $6,500,000 in TIF Bonds for the Navy Base Redevelopment Project. See Note 15 for more information.
3. The Division transferred to North Charleston certain buildings and land on the former Navy Yard as soon as practicable after the effective date.
4. North Charleston transferred to the Division certain buildings and land on the former Navy Yard as soon as practicable after the effective date.
5. Before December 31, 2017, the Division transferred to North Charleston additional buildings and land on the former Navy Yard.
6. Before December 31, 2017, North Charleston transferred to the Division additional buildings and land on the former Navy Base.

All terms of the agreement outlined above have been met as of December 31, 2019 excluding the assumption of $6,500,000 in TIF bonds. A portion of the TIF Bonds assumed by the Division are still outstanding as of December 31, 2019 as discussed in Note 15.

NOTE 15 – NONCURRENT LIABILITIES

As part of the Settlement Agreement and Release, see Note 14, the Division assumed responsibility for payment of $6,360,000 in TIF Bonds from the City of North Charleston. Principal and interest are payable in annual installments beginning September 2013 through September 2037 with variable interest (1.9% at June 30, 2019), as determined by the remarketing agent, payable each month. The balance outstanding at December 31, 2019 was $5,185,000.

Future principal payments of the TIF bonds are as follows:

Year Ending December 31,	Principal Payments
2020	$ 195,000
2021	205,000
2022	215,000
2023	225,000
2024	235,000
2025-2029	1,325,000
2030-2034	1,630,000
2035-2037	1,155,000
Total	$ 5,185,000

On May 5, 2017, the Division purchased the assets of the Hampton and Branchville Railroad Company, currently known as the Salkehatchie Subdivision ("SALKS") for $6,500,000. Financing for the acquisition was provided to the Division by the Colleton County Intermodal Corporation ("CCIC"), which obtained the funds from its issuance of taxable economic development revenue bonds.

CCIC loaned the Division $11,663,086, which is equal to the CCIC's payments for the taxable development revenue bonds. There were no principal and interest components stipulated in the loan; however, the principal amount is considered to be the exchange price of the property with the remaining payments relating to interest. These payments will allow CCIC to fulfill its obligations under its taxable economic development revenue bonds.

Payments on the loan are payable only from the revenues and net income generated from the operation of SALKS. Payments are limited to 10% of annual revenues of SALKS and 25% of net income generated by SALKS.

The loan matures on May 12, 2047 and may be extended in four increments of five years each, if certain conditions are met and the loan has not been paid in full by the maturity date. The loan has a put option beginning at the end of five years under which the Division may relinquish its rights to the SALKS railroad in exchange for the loan being considered paid in full. The loan also contains a call option exercisable after five years under which CCIC can demand payment in full or repossess the SALKS railroad if the loan payments in the preceding fiscal year are less than CCIC's payment obligations on its taxable economic development revenue bonds for that year.

As noted above, the loan requires total payments of $11,663,086, which includes $6,500,000 of principal that was borrowed to fund the acquisition of SALKS. This leaves the remaining $5,163,086 allocated to interest expense. Because of the variable nature of the payments (see above), the effective interest rate will vary depending on the timing and amount of the loan repayments. Assuming a level stream of payments over the life of the loan, the effective interest rate is calculated to be 4.2798%.

The loan is collateralized by SALKS assets.

The Division is obligated to operate SALKS and maintain the tracks even if revenues are insufficient. Operations of SALKS can only be ceased with written consent from CCIC.

Interest expense for the loan in 2019 was $99,699. Interest payable at December 31, 2019 was $99,699.

NOTE 16 - RISK MANAGEMENT

The Division is exposed to various risks of loss and maintains State or commercial insurance coverage for certain risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Division. Settled claims have not exceeded this coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The Division pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered losses sustained during the policy period in accord with the insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of covered public employees for health and dental insurance benefits (PEBA – Insurance Benefits Division); and

2. Claims of covered public employees for long-term disability and group-life insurance benefits (PEBA – Insurance Benefits Division).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums which are remitted to commercial carriers.

The Division and other entities pay premiums to the State's Insurance Reserve Fund ("IRF") which issues policies, accumulate assets to cover the risks of loss and pays claims incurred for covered losses related to the following Division assets, activities, and/or events:

1. Real property, its contents and other equipment - Coverage per loss for real property is based on current valuation with a $10,000 deductible. Eighty percent of each loss is covered by the IRF.

2. Motor vehicles - Coverage is up to $1,000,000 per loss with a $500 deductible for comprehensive coverage and $500 for collision.

3. Torts

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, and automobile liability. The IRF's rates are determined actuarially.

State agencies are the primary participants in the PEBA – Insurance Benefits Division and in IRF.

The Division purchases insurance, which covers all subdivisions, through private carriers for liability and property loss on road and locomotive assets, and employee fidelity bond insurance coverage for all employees to cover losses of up to $100,000 arising from theft or misappropriations. Management believes based on exposure and likelihood of loss that this coverage is sufficient.

The Division has purchased insurance, which covers all subdivisions, from a private carrier for liability under the Federal Employers Liability Act (FELA), which is similar to workmen's' compensation insurance and covers all employees. The Division has elected to retain the risk of loss on this coverage for up to the first $100,000 of costs per claim. Management has elected to retain this amount of risk because it feels that it is more economical than paying additional premiums for increased coverage. In the current year, no expenses were incurred on claims under the policy. Also, a tax is paid to the U.S. Railroad Retirement System to cover all the Division employees for unemployment benefits. The Division has recorded insurance premium expenses in the applicable operating department corresponding to the employees for whom contributions are made or in insurance expense under administrative costs.

NOTE 16 - RISK MANAGEMENT (CONTINUED)

The Division's management believes risk of loss from business interruption is a remote likelihood, however the Division does have $250,000 coverage through their equipment liability coverage policy for this risk.

The Division did not incur any significant losses in 2019 for self-insured risks; however, the Division has set up a $100,000 reserve related to a potential Federal Employers Liability Act claim. The Division reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired, or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

NOTE 17 – COMMITMENTS, CONTINGENCIES AND LITIGATION

The Division is party to a number of civil lawsuits and other legal proceedings. At the current time management and legal counsel are unable to determine any ultimate outcome of existing and potential legal actions. The Division has undertaken condemnation actions on certain properties in connection with the Navy Base Intermodal Facility to be constructed in North Charleston, South Carolina and the Camp Hall Rail Project to be constructed in Berkeley County, South Carolina. The Division has begun condemnation actions on several properties that have been filed and paid in the amount of approximately $1,800,000 and anticipated condemnation cases are expected to be approximately $1,237,000. In addition, there is one pending condemnation case that could ultimately result in a loss; however, the outcome of the case and any associated loss are currently undeterminable.

On October 18, 2016, Palmetto Railways signed a Memorandum of Agreement (MOA) with the Chicora-Cherokee Neighborhood Association, The Union Heights Community Council, The Lowcountry Alliance for Model Communities, and the Metanoia Community Development Corporation to take certain mitigation and enhancement actions that will reduce, avoid or offset potential impacts associated with the Navy Base Intermodal Facility being built close to these communities. The MOA is contingent upon Palmetto Railways receiving all permits and records of decision necessary to begin construction of the facility. Palmetto Railways will fund $3,000,000 to build a new recreation center and an additional $1,000,000 over nine years to fund various community programs in the affected communities. Once all necessary permits and records of decisions have been received, Palmetto Railways will make progress payments when construction begins on the recreation center up to the $3,000,000 committed. The payments to fund the various community programs will be paid as follows: $200,000 within 60 days after the issuance of records of decisions by the Army Corps of Engineers and the Federal Railroad Administration with annual $100,000 payments until the $1,000,000 has been paid. The first $200,000 payment was made during the year ended December 31, 2019.

NOTE 18 – INTERFUND BALANCES

Interfund balances at December 31, 2019 (which are expected to be received or paid within one year, except for $313,137 due from the SALKS to CHS-NCS related to the 2017 SALKS purchase), consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
CHS-NCS	$ 914,653	$ -
CCS	-	601,516
SALKS	-	313,137
Totals	$ 914,653	$ 914,653

Other than the $313,137 noted above, receivables and payables are primarily the result of expenses for CCS and SALKS being paid using the CHS-NCS cash account. These interfund receivables and payables were relieved subsequent to December 31, 2019.

NOTE 19 – INTERFUND TRANSFERS

Transfers from (to) other funds for the year ended December 31, 2019 consisted of the following:

Fund	Transfer In	Transfers Out
CHS-NCS	$ 1,000,000	$ -
CCS	-	1,000,000
Totals	$ 1,000,000	$ 1,000,000

These transfers were made in order to help fund construction projects.

NOTE 20 – ENTERPRISE FUND INFORMATION

Charges for services	$ 23,987,387
Capital grants	3,981,357
Operating grants	305,245
Less: expenses	(18,774,192)
Net program revenue	9,499,797
Interest income and gain (loss) on sale of investments	258,570
Miscellaneous revenue	263,544
Gain (loss) on sale or disposal of fixed assets	1,987,618
Net general revenue	2,509,732
Change in net position	12,009,529
Net position, beginning of year	216,146,337
Net position, end of year	$ 228,155,866

This information is included only for the State of South Carolina GAAP reporting purposes and includes terminology and classifications which are not consistent with the financial statements.

NOTE 21 – SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the note payable was amended for the fifth time to extend the loan until June 30, 2021.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SOUTH CAROLINA RETIREMENT SYSTEM

LAST SIX FISCAL YEARS

	Year Ended December 31,					
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Palmetto Railways' Proportion of the Net Pension Liability	0.05066%	0.04744%	0.04668%	0.04501%	0.03567%	0.03140%
Palmetto Railways' Proportionate Share of the Net Pension Liability	$ 11,567,154	10,629,311	10,508,644	9,613,642	6,765,556	$ 5,406,556
Palmetto Railways' Covered Payroll	$ 5,556,201	5,181,225	5,026,978	4,064,539	3,157,875	$ 2,748,612
Palmetto Railways' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	208.2%	205.2%	209.0%	236.5%	214.2%	196.7%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.4%	54.1%	53.3%	52.9%	57.0%	59.9%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the year presented.
Palmetto Railways implemented GASB #68/71 during the year ended December 31, 2015. Information before 2014 is not available.
The discount rate was lowered from 7.50% to 7.25% for the year ended December 31, 2018.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM

LAST SIX FISCAL YEARS

	Year Ended December 31,					
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 811,859	719,285	607,795	514,877	426,759	$ 330,236
Contributions in Relation to the Contractually Required Contribution	811,859	719,285	607,795	514,877	426,759	330,236
Contribution Deficiency (Excess)	$ -	-	-	-	-	$ -
Palmetto Railways' Covered Payroll	$ 5,575,041	5,337,176	5,152,091	4,211,589	3,626,806	$ 2,961,075
Contributions as a Percentage of Covered Payroll	14.56%	13.48%	11.80%	12.23%	11.77%	11.15%

Notes to Schedule:

Palmetto Railways implemented GASB #68/71 during the year ended December 31, 2015. Information before 2014 is not available.
The contractually required contribution rate was increased from 14.56% to 15.56% of eligible payroll as of July 1, 2019.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
POLICE OFFICERS RETIREMENT SYSTEM

LAST SIX FISCAL YEARS

	Year Ended December 31,					
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Palmetto Railways' Proportion of the Net Pension Liability	0.00022%	0.00102%	0.00412%	0.00416%	0.00407%	0.00406%
Palmetto Railways' Proportionate Share of the Net Pension Liability	$ 6,255	28,993	112,870	105,619	88,706	$ 77,745
Palmetto Railways' Covered Payroll	$ -	14,163	55,481	53,086	504,255	$ 48,840
Palmetto Railways' Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	0.0%	204.7%	203.44%	198.96%	17.59%	159.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.7%	61.7%	60.94%	60.44%	64.57%	67.55%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the year presented.
Palmetto Railways implemented GASB #68/71 during the year ended December 31, 2015. Information before 2014 is not available.
The discount rate was lowered from 7.50% to 7.25% for the year ended December 31, 2018.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' CONTRIBUTIONS
POLICE OFFICERS RETIREMENT SYSTEM

LAST SIX FISCAL YEARS

	Year Ended December 31,					
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ -	-	6,285	7,695	6,947	$ 6,521
Contributions in Relation to the Contractually Required Contribution	-	-	6,285	7,695	6,947	6,521
Contribution Deficiency (Excess)	$ -	-	-	-	-	$ -
Palmetto Railways' Covered Payroll	$ -	-	42,144	55,000	51,171	$ 49,680
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	14.91%	13.99%	13.58%	13.13%

Notes to Schedule:

Palmetto Railways implemented GASB #68/71 during the year ended December 31, 2015. Information before 2014 is not available.
The contractually required contribution rate was increased from 17.24% to 18.24% of eligible payroll as of July 1, 2018.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

LAST FOUR FISCAL YEARS

	Year Ended December 31,			
	2019	**2018**	**2017**	**2016**
Palmetto Railways' Proportion of the Net OPEB Liability	0.06353%	0.06025%	0.06027%	0.06027%
Palmetto Railways' Proportionate Share of the Net OPEB Liability	$ 9,606,705	8,537,069	8,163,473	$ 8,720,244
Palmetto Railways' Covered Payroll	$ 5,556,201	5,195,387	5,082,459	$ 4,654,037
Palmetto Railways' Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	172.90%	164.32%	160.62%	187.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	7.91%	7.60%	7.60%	6.62%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the year presented (measurement date).
Palmetto Railways adopted GASB #75 during the year ended December 31, 2018. Information prior to 2016 is not available.
The discount rate changed from 3.56% as of the June 30, 2017 measurement date to 3.62% for the June 30, 2018 measurement date.
The discount rate changed from 3.62% as of the June 30, 2018 measurement date to 3.13% for the June 30, 2019 measurement date.

PALMETTO RAILWAYS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN SCHEDULES

SCHEDULE OF PALMETTO RAILWAYS' CONTRIBUTIONS
SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

LAST FOUR FISCAL YEARS

	Year Ended December 31,			
	2019	**2018**	**2017**	**2016**
Contractually Required Contribution	$ 342,830	308,677	281,289	$ 259,710
Contributions in Relation to the Contractually Required Contribution	342,830	308,677	281,289	259,710
Contribution Deficiency (Excess)	$ -	-	-	$ -
Palmetto Railways' Covered Payroll	$ 5,575,042	5,337,176	5,194,235	$ 4,872,603
Contributions as a Percentage of Covered Payroll	6.15%	5.78%	5.42%	5.33%

Notes to Schedule:

Palmetto Railways adopted GASB #75 during the year ended December 31, 2018. Information prior to 2016 is not available.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the South Carolina Department of Commerce – Division of Public Railways d/b/a Palmetto Railways (the "Division") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated July 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
July 30, 2020